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September 8, 2016

Dr. Grant Forsyth
Chair
Citizens Commission for Performance Measurement of Tax Preferences
1300 Quince St. S.E.
Olympia, WA 98504-0910

Dear Mr. Forsyth:

Thank you for the opportunity to provide written testimony regarding the tax preference that provides a B&O exemption for syrup taxes paid by restaurants. (RCW 82.04.4486)

The Washington Restaurant Association (WRA) represents over 6,000 restaurants in the State of Washington. Our membership includes both full service and quick service restaurants, and 84% of industry are considered small businesses, employing fewer than 20 people. Restaurants in Washington have average sales of just over \$800,000 annually.

In 1994 the Legislature approved a number of taxes to fund the Violence Reduction and Drug Enforcement (VERDE) Account. One of those taxes was directed at syrup used by restaurants to create carbonated beverages. For years the WRA educated lawmakers regarding the impact of the syrup tax on our industry, particularly on quick service establishments. We pointed out that Washington was already a high cost state to do business, and as a result restaurants employed three fewer employees per establishment than similarly situated establishments in peer states. We further made the case that for quick service restaurants the syrup tax was equal to what they paid in B&O tax, resulting in a doubling of their tax burden.

In 2006 the Legislature adopted a B&O offset for taxes paid by restaurants, and Governor Gregoire signed the measure. The reason an offset was chosen by lawmakers is that the syrup taxes paid at the time went directly into the dedicated VERDE account, and lawmakers didn't want to cut funding aimed at reducing violence and drug use by children. The B&O offset provided relief to restaurants and protected the account.

As noted in the JLARC report, in 2009 the Legislature consolidated the VERDE account and all of its programs into the General Fund. The WRA very much appreciates the JLARC's recommendation to eliminate both the tax and the B&O offset. Such an action would eliminate the now unnecessary collection of the syrup tax and the subsequent need to apply for a B&O offset. Given most of our members are small businesses, removal of this complicated tax maneuver would be welcome.

Please see below specific answers to questions posed by the Commission:

Is there evidence that the tax preference achieved its purpose, as noted in the 2016 tax preferences reports?

The tax preference authorizing a B&O offset did indeed provide relief to many restaurants in our industry. As noted in the JLARC report, a number of restaurants do not take advantage of the B&O offset. We believe that this is because our smaller members are not aware they have the right to take advantage of the tax treatment. Elimination of the tax in its entirety would help those small businesses.

Does the preference provide benefits in addition to those stated in its intended or inferred purpose?

No specific research has been done regarding this type of question. We believe this tax preference has been beneficial to restaurants of all sizes. Restaurants in Washington State have some of the lowest margins in the nation, averaging around 4.5%. As a result our member employ three fewer employees per establishment than peer restaurants in other states. Restaurants -- particularly smaller establishments -- have faced, and continue to face, ever increasing expense pressures from minimum wage, labor costs, food costs, and energy costs. We believe this tax treatment has been a critical factor in the survival of many quick service restaurants.

Do taxes associated with any increased economic activity stimulated by this tax preference exceed the preference's loss of tax revenue?

No research has been done to answer this question definitively.

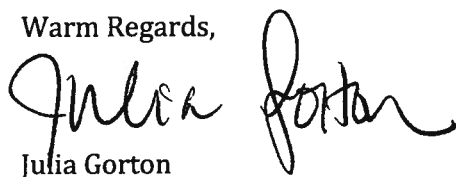
Does this preference have negative consequences? For example, were other industries, workers, or the environment harmed by activities stimulated by this tax preference?

The WRA believes the B&O offset has only been beneficial for the citizens of the State of Washington. Restaurants are a major employer in this State, and quick service establishments make up approximately 30% of our industry. A tax climate that ensures restaurants are only taxed once helps them to employ many thousands of individuals.

Thank you again for the opportunity to provide input to you and to the Commission. We also very much appreciate the process undertaken by the JLARC staff in regard to this tax preference. We further hope the Commission will ratify the position of the JLARC, and recommend to the Legislature that both the syrux tax and the B&O offset be eliminated.

Regrettably, our subject matter experts on this matter will not be in town for the hearing on September 8, 2016. If you, your fellow Commission members, or your staff has any questions; please feel free to call me directly at 360-956-7279.

Warm Regards,



Julia Gorton
Senior Manager, State Government Affairs
Washington Restaurant Association

cc. Keenan Konopaski, Legislative Auditor